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SIPDIS

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SUBJECT: TURKEY: PUTIN VISIT AND THE ENERGY AGENDA

REF: A. ANKARA 315  
    1B. ANKARA 289  
    1C. ANKARA 253  
    1D. ANKARA 111  
    1E. ANKARA 4

Classified By: Econ Counselor Dale Eppler for reasons 1.4 b, d

11. (C) Summary: Russian Prime Minister Putin will visit Turkey on August 6 with an agenda heavily focused on energy issues, including: extension of the Westline gas contract; Southstream; Bluestream II; Russian oil for the proposed Samsun-Ceyhan Bosphorus bypass pipeline; and the long-delayed Russian nuclear power plant construction bid. While GOT sources deny these are being negotiated as a package, they say there are linkages between them. For example, the GOR proposed a protocol that would allow it to build the Southstream pipeline through Turkish Black Sea waters, and the Turks have asked for Russian oil throughput for Samsun-Ceyhan in exchange. The Putin visit will force the GOT finally to make a decision on the Russian nuclear power plant bid, and we think the most likely scenario is an acceptance of the Russian bid at a much reduced price. The GOT has stopped mentioning Bluestream II in public and private comments, so we do not expect substantive announcements about that project during the visit. The GOT sees Russia as key to regional energy policy and wants to engage the Russians without appeasing them. They hope with time and patience to convince the Russians to drop their zero-sum approach to energy policy and engage in "responsible cooperation." End summary.

12. (C) Russian prime minister Vladimir Putin will make a one-day visit to Turkey on August 6. His visit will be preceded by a meeting August 4-5 of the Turkey-Russia Joint Economic Commission, co-chaired by Deputy Prime Minister Sechin and Energy Minister Yildiz. As of July 17, many details about Putin's visit, including whether it will be held in Istanbul or Ankara, had not been decided, according to Aysa Osafoglu at MFA's Russia desk. MFA understands that the GOR is awaiting a decision from Putin's office on his venue preference. The working assumption is the visit will be in Ankara.

13. (C) The agenda for the visit will be heavily energy-focused. Osafoglu said MFA does not expect substantive discussions on political or security issues. Vural Altay, MFA Deputy Director General for Energy Affairs, said July 17 that the energy agenda includes: extension of the Westline contract expiring in 2011; Russian oil for the Samsun-Ceyhan bypass pipeline; Bluestream II gas pipeline; the Southstream gas pipeline; and a final decision on the long-delayed Russian nuclear power plant bid. Altay denied that these were being negotiated as a package deal, but admitted that there are some "linkages" between them (though he declined to specify what those linkages were). Concerning the Westline contract extension, Altay said they were receiving "positive signs" from the GOR. Altay said Russia is not interested in

providing gas to Nabucco "at this time," but may change its position once the pipeline becomes more real.

#### Southstream and Samsun-Ceyhan

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¶ 14. (C) MFA Deputy Undersecretary Feridan Sinirlioglu explained one of the agenda linkages on July 29. Sinirlioglu said the GOR was taken by surprise when the Nabucco IGA signing happened in July. Immediately afterwards, Deputy PM Sechin came to Ankara to ask the GOT to sign a protocol that would allow Russia to build the Southstream pipeline through Turkish Black Sea territorial waters. Sinirlioglu said the proposed protocol "served only Russian interests," and that Sechin was "shocked" when the GOT asked for something in return: oil throughput for the Samsun-Ceyhan oil pipeline. According to Sinirlioglu, closing this deal depends on the Russian response. Sinirlioglu also emphasized the very high USD 17 billion cost of Southstream, and indicated real doubts about whether the line actually would be built.

#### The Nuclear Bid

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¶ 15. (C) In September 2008, a Russian-led consortium (the state-owned AtomStroyExport, InterRAO UES and the Turkish firm Park Teknik) were the sole bidders in a tender to build Turkey's first nuclear power plant (see refs D and E for more details). The bid was found technically acceptable in December 2008. The sole remaining barrier was the price: the Russians offered US 21 cents per kilowatt hour, which was deemed far too high by the GOT and Turkish commentators. The consortium subsequently reduced their offer to 15 cents, and we understand that the GOR has offered to drop it to 12 cents. A Russian embassy contact told us July 4 that they will drop the price to 10 cents if that is what it takes to close the deal, and that the GOR very much wants the contract and expects the deal will be concluded during Putin's visit.

¶ 16. (C) Energy Minister Yildiz said July 29 that the GOT was at the point of making "key decisions" on the nuclear bid, but declined to give any specifics. At this point, a rejection of the Russian bid would have to come from the Council of Ministers and be based on price. Comment: We have heard from different sources that AK Party deputies are not happy with the Russian proposal, in part due to doubts about Russian technology. GOT officials in both MFA and the Ministry of Energy have told us they do not like the deal because of Turkey's already heavy energy dependence on Russia and AtomStroyExport's spotty record on completing projects on time. However, Yildiz has told us that Turkey must have the electricity from the nuclear plant by 2017 and that Turkey should have moved on nuclear power a decade ago and it is up to this government to deliver it. It would be very difficult for the GOT to give Putin an outright "no" on the bid during his visit. Thus, we believe the most likely scenario is GOT acceptance of the Russian bid with a price drop to 10 cents per kilowatt hour. Given that the Russians very much want the nuclear deal, the GOT also could be linking accepting the Russian bid to, e.g., a reduction in the price of gas in the Westline contract extension. A less likely (but still possible) scenario is that the GOT continues to negotiate with the Russians in hopes they will give up on the bid, while moving forward on the second nuclear tender -- which they have promised will be in a much more investor-friendly, public-private partnership format. End comment.

#### Whither Bluestream II?

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¶ 17. (C) In early July, DDG Altay told us with some enthusiasm that Bluestream II discussions were advancing and that the project would bring an additional 8 BCM into the Turkish market, reducing Turkey's need for gas coming through Ukraine. In discussions on July 17, however, he only mentioned Bluestream II in response to a direct question of whether it was on the agenda, and he had no comment at all

about the status of the talks. Similarly, Bluestream II has dropped out of recent newspaper articles describing wthe agenda for Putin's visit, and neither Sinirlioglu nor Yildiz mentioned the project in recent meetings. Comment: We take this as an indication that there will be no substantive announcements about Bluestream II during the Putin visit. End comment.

Turkey's Russia Strategy

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¶8. (C) Sinirlioglu told us that the GOT sees Russia as key to regional energy policy. This is a much stronger, more assertive Russia than in the 1990s. "We need to accomodate Russia, but not appease it." He agreed that the Russian "power politics" approach has not changed yet, and that Russia needs to understand that not everything is zero sum game. It will take time and patience to convince Russia that they stand to gain from "responsible cooperation." Sinirlioglu emphasized that Turkey does not want to be dependent on Russia, and noted in particular that Turkey buys too much of its natural gas -- 65 percent -- from Russia, Similarly, DDG Altay said that the GOT invited Russia to the Nabucco IGA signing ceremony not because they expected the Russians to send a delegation, but because they wanted to signal that Nabucco is not intended to isolate Russia. (See refs A, B and C for more on Turkish energy policy with Russia.)

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